Mr Wightman

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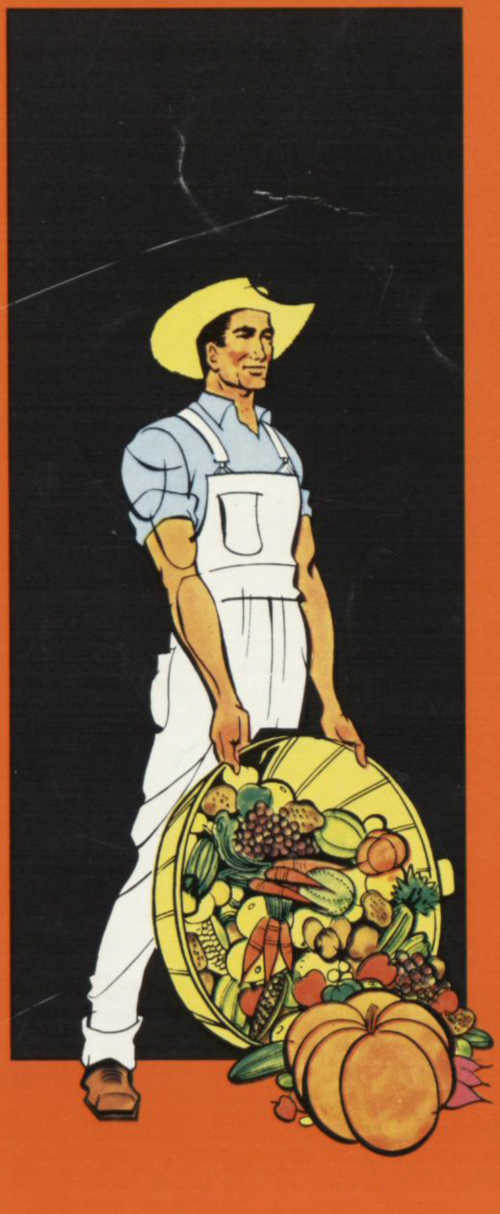
1959 ANNUAL REPORT FOOD GIANT MARKETS INC.



DIRECTORS

THEODORE E. CUMMINGS*

J. HOWARD EDGERTON*

HAROLD L. FIERMAN*

ALFRED J. GOCK

RAY L. HOMMES

J. BRADFORD WHARTON, JR.

**Members of the Executive Committee*

OFFICERS

HAROLD L. FIERMAN,
Chairman of the Board

THEODORE E. CUMMINGS,
President and Chairman of the Executive Committee

FRANCIS W. DANIELSON
Vice President and Treasurer

DAVID B. SHERWOOD, *Secretary*

TRANSFER AGENTS
The Marine Midland Trust Company of New York, N.Y.
The Corporation Trust Company of Jersey City, N.J.
REGISTRAR
Chemical Bank New York Trust Company, New York, N.Y.
AUDITORS
Ernst & Ernst
COUNSEL
Kaye, Scholer, Fierman, Hays & Handler, New York, N.Y.
Robert N. Gold, Beverly Hills, California
FOOD GIANT MARKETS, INC.
PRINCIPAL OFFICE:
4707 District Boulevard / Los Angeles 58, California

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INVESTMENT DIVISION
JUL 5 1960
RECEIVED

To our shareholders

Continuing its expansion initiated in August, 1957, Food Giant Markets has increased its operating stores from 6 to 31, and ended the year doing an annual sales volume at the rate of approximately $117,000,000. Current assets at January 3, 1960 were $12,019,712 with current liabilities of $5,061,435 reflecting a current ratio of 2.37 to 1 and with a working capital of approximately $7,000,000.

SALES AND EARNINGS: The year 1959 opened most inauspiciously since the entire industry in the greater Los Angeles Metropolitan Area was affected by a major strike of retail clerks. The strike lasted for 28 days and closed all but 4 of the Food Giant markets. It was concluded by a 5-year labor agreement between the various retail clerks unions and the entire retail food industry. The result of this strike and the increased costs created by the wage agreement adversely affected the earnings for the first 6 months.

The following breakdown of the sales and earnings by quarters more clearly indicates the trend of earnings during the year.

Year—1959	Sales	Net Income	Common Shares Outstanding	Earnings Per Common Share Outstanding at End of Quarter
First Quarter	$15,636,250	$ 103,185	1,306,400	$ .01
Second Quarter	$21,706,527	$ 833,657	1,362,968	$ .55
Third Quarter	$26,974,456	$ 909,902	1,397,130	$ .60
Fourth Quarter	$30,590,761	$1,172,097	1,444,241	$ .76

For the year 1959 on sales of $94,907,994, net income of your company was $3,018,841, which, after provision for preferred dividends of $306,115, amounted to $2,712,726, equivalent to $1.88 per share on 1,444,241* shares of common stock outstanding at year end.

**This represents an increase of 161,821 shares over 1,282,420 shares outstanding at December 28, 1958. Of this increase, 98,257 shares resulted from the conversion of preferred stock, 54,772 shares from the distribution of 4% stock dividends and 8,792 shares from the exercise of stock options.*

No provision for federal taxes on income was required for 1958 or 1959 due to the existence of prior years' loss carry-forward. As of January 3, 1960 there remained approximately $200,000 of such loss carry-forward to be applied against future income.

Your company invaded the San Diego area on June 1, 1959, by acquiring for cash 3 existing markets from the DeFalco's Market Company, Inc. and subsequently opened 2 new stores in that area. In all, your company opened 11 new stores during the year. The earnings for the year do not, therefore, reflect the full profit potential from the DeFalco acquisition or from the 11 stores opened. One small unit was sold during the period.

During the year all miscellaneous equipment and assets of the former Magic Chef Division were sold other than the Cleveland plant (300,000 square feet of manufacturing and warehouse space located on 34 acres in Cleveland, Ohio). While this asset operated at a loss of approximately $10,000 including depreciation during the year 1959, newly executed short term leases, effective during the year 1960, indicate a profit from rental for the coming year.

DIVIDENDS: Two regular semi-annual cash dividends of $.20 per share on the preferred stock were paid during 1959. In addition, two semi-annual stock dividends of 2% each were paid on the common stock of the company.

MANAGEMENT AND PERSONNEL: Anticipating the expansion program of your company, management has successfully undertaken the development of required personnel. Our experience during the last two years makes your management confident that it will be able to develop such additional personnel as may be necessary to accommodate for the future expansion of the company.

Management takes this opportunity of thanking its loyal and efficient employees for the cooperation extended during the past year to make this undertaking possible.

LOOKING TO 1960: There are 21 additional markets to be completed during the next 12 to 18 months which are in planning or construction stages. All of these are in the greater Los Angeles and San Diego areas. In line with your company's plans for geographical diversification, Food Giant is intensively exploring the area north of Los Angeles County for additional locations. Your management feels that expansion into this area can be accomplished both by building new stores and acquiring existing markets.

To finance the company's current expansion program an agreement has been concluded with The Prudential Life Insurance Company of America for an increase in its loan to $10,000,000. Of the additional $4,867,000 acquired, $2,367,000 was received by your company February 1, 1960, and the balance will be taken down by February 28, 1961. The new loan of

$10,000,000 will become due in 1975, and the first annual installment payment is required to be made February 1, 1963.

On February 5, 1960 your company executed an agreement to acquire all of the issued shares of Meyenberg-Old Fashion Products Company, a wholly-owned subsidiary of Starrett Corporation. This agreement is subject to confirmation by the shareholders of Starrett Corporation at a meeting to be called for the latter part of April, 1960. Meyenberg manufactures evaporated and sweetened condensed cow's milk, evaporated goat's milk, and ice milk mix. It also operates by franchise 208 "Foster Freeze" soft ice cream and hamburger drive-ins in California, making it the largest chain of its kind in the state. The acquisition of Meyenberg initiated Food Giant's projected vertical integration and expansion into the dairy, bakery and other food products fields. Meyenberg earned about $450,000 in 1959, before certain adjustments attributable to the operations under the Starrett ownership. As a result of the operation of this company as a wholly-owned subsidiary of Food Giant, it is expected that these earnings will increase substantially.

On January 4, 1960 your company joined in a cooperative undertaking involving the retail food industry in the greater Los Angeles area in offering Blue Chip trading stamps to its customers. From the enthusiastic customer reaction already experienced, your management feels sure that the Blue Chip Stamp Plan will be an important tool, both for creating new business and renewing old loyalties. Management is hopeful that the trading stamp program will be less costly to the company than any other stamp program because of the cooperative nature of the undertaking.

During the coming year, your company plans to complete a central warehouse and distribution center which will meet present requirements and provide ample facilities for our future expansion.

The rapid population growth of California continues at an ever increasing pace and your management believes that this trend will, over the years, be reflected in increased sales and earnings for your company. Your management looks forward to 1960 as a period of further important growth for Food Giant Markets, Inc.

Respectfully submitted,

Theodore E. Cummings

THEODORE E. CUMMINGS, *President*

Harold Fierman

HAROLD L. FIERMAN, *Chairman of the Board*

Balance Sheet *

JANUARY 3, 1960

FOOD GIANT MARKETS, INC.

ASSETS

CURRENT ASSETS		
Cash		$ 2,839,737
Notes ($76,470) and accounts receivable, less allowance of $66,997		768,705
Merchandise inventories—at lower of average cost or market		7,480,576
Prepaid expenses		380,179
Store property, subject to agreement of sale and lease-back		550,515
TOTAL CURRENT ASSETS		$12,019,712
		380
		11,639
OTHER ASSETS		
Advances due December 31, 1960—Note A	$ 2,857,650	
Investment in liquor licenses—at cost	405,823	
Miscellaneous investments in capital stocks—at cost	369,494	
Rental and other deposits	180,232	
Property not used in operations—land ($282,343) and buildings at cost, less $288,068 allowance for depreciation	1,051,027	
Deferred charges	109,256	4,973,482
		18.7
PROPERTY, PLANT, AND EQUIPMENT—on the basis of cost		
Building, fixtures and equipment, leaseholds, and leasehold improvements	$15,717,702	
Less allowances for depreciation and amortization	2,800,183	
	$12,917,519	
Land	81,982	12,999,501
		$29,992,695

* *See notes to financial statements*

1300
280
1580

LIABILITIES

CURRENT LIABILITIES		
Trade accounts payable		$ 3,987,194
Salaries and wages, pay roll taxes, and amounts withheld from employees		608,876
Accrued taxes, interest, rent, and other expenses		465,365
TOTAL CURRENT LIABILITIES		$ 5,061,435
LONG-TERM DEBT—Note B		
Unsecured note payable to bank	$2,367,000	
5¾% promissory note payable to insurance company	5,133,000	7,500,000
STOCKHOLDERS' EQUITY		
Capital stock:		
Preferred Stock, par value $10 a share—Note C:		
4% Cumulative Convertible Preferred Stock; authorized 877,490 shares, converted 260,947 shares, outstanding 616,543 shares	$6,165,430	
Cumulative Convertible Preferred Stock—4% Series of 1958; authorized and issued 100,000 shares	1,000,000	
Other, not presently defined; authorized 522,510 shares, none outstanding	—0—	
Common Stock, par value $1 a share—Note D:		
Authorized 2,500,000 shares (of which 358,272 shares are reserved for conversion of convertible preferred shares and 60,579 shares are reserved for options); issued and outstanding 1,444,241 shares	1,444,241	
Capital surplus	6,224,399	
Earned surplus—Notes B and G	2,597,190	17,431,260
	10.265	717
		1026
COMMITMENTS AND CONTINGENT LIABILITIES		
Notes E, F, and H		
		$29,992,695

17.4
7.5
24.9
5

See notes to financial statements

358
2)716

1.53
.36
1.89

Statement of income and equity *

FOOD GIANT MARKETS, INC.

STATEMENT OF INCOME—*Fiscal year ended January 3, 1960*

Net sales		$94,907,994
Cost of merchandise sold		74,308,524
		$20,599,470
Selling, warehousing, and administrative expenses		17,686,102
		$ 2,913,368
Other income		589,161
		$ 3,502,529
Other deductions:		
Interest on long-term debt	$366,557	
Other interest	37,293	
Expenses of property not used in operations, less rental income	5,819	
Miscellaneous	74,019	483,688
NET INCOME—Note H		$ 3,018,841

2.913
1.245
4.158

Provision for depreciation and amortization of property, plant, and equipment for the year amounted to $1,245,090

STATEMENT OF STOCKHOLDERS'S EQUITY—*Fiscal year ended January 3, 1960*

	4% Cumulative Convertible Preferred Stock	Cumulative Convertible Preferred Stock—4% Series of 1958	Common Stock	Capital Surplus	Earned Surplus
Balance at December 29, 1958	$8,130,600	$1,000,000	$1,282,420	$2,872,674	$1,360,596
Conversion of 196,517 shares of 4% Cumulative Convertible Preferred Stock into 98,257 shares of Common Stock, less $42 paid in lieu of fractional shares	1,965,170*		98,257	1,866,871	
Issuance of 8,792 shares of Common Stock to officers and employees under stock option agreements			8,792	102,788	
Issuance of 26,723 shares of Common Stock on June 30, 1959, in payment of 2% stock dividend at market value of $28.43 a share			26,723	733,012	759,735*
Issuance of 28,049 shares of Common Stock on December 15, 1959, in payment of 2% stock dividend at market value of $24.14 a share			28,049	649,054	677,093*
Cash dividends declared:					
On 4% Cumulative Convertible Preferred Stock—$.40 a share—Note G					305,419*
On Cumulative Convertible Preferred Stock—4% Series of 1958—$.40 a share—Note G					40,000*
Net income for the year					3,018,841
Balance at January 3, 1960	$6,165,430	$1,000,000	$1,444,241	$6,224,399	$2,597,190

*Indicates deduction

* *See notes to financial statements*

Notes to Financial Statements – January 3, 1960

NOTE A — ADVANCES. The advances are secured by shares of capital stock of the Company, the market value of which shares approximates the amount of such advances. The Company has the right to claim the stock in full settlement of the advances.

NOTE B — LONG-TERM DEBT. On February 1, 1960, the Company entered into a new loan agreement with an insurance company which permits borrowing of $10,000,000. The Company immediately issued its 5.9% promissory note for $7,500,000 and used the proceeds to retire all the long-term debt shown as outstanding in the accompanying balance sheet. The agreement provides that a second note for $2,500,000 will be dated February 28, 1961 or such earlier date as the Company may elect. The notes are payable in annual installments of $770,000 commencing February 1, 1963, with balance due February 1, 1975.

The new loan agreement places certain restrictions on the amount of funded debt and on the amount of current debt from borrowings, and requires the Company to maintain consolidated working capital of $6,000,000 to December 31, 1960, $7,000,000 to December 31, 1962, and $8,000,000 thereafter. The agreement also provides that the Company cannot pay cash dividends or acquire its own stock except out of consolidated net earnings which are defined in the agreement as the sum of $600,000 plus 70% of consolidated net earnings subsequent to January 1, 1960.

NOTE C — PREFERRED STOCK. The Preferred Stock is issuable in series under such terms and conditions as the Board of Directors may determine. The two series presently outstanding may be redeemed at any time at a redemption price equal to $10.50 a share plus dividends accrued to the redemption date, and in the event of voluntary or involuntary liquidation or dissolution are entitled to $10 a share plus dividends accrued to the date of such liquidation or dissolution. At the option of the holder thereof, the shares are convertible into fully-paid Common Stock of the Company at the rate of one-half share of Common Stock for each share of Preferred Stock.

NOTE D — STOCK OPTIONS. The Company's restricted stock option plan provides that options may be granted to officers and key employees to purchase shares of the Company's unissued or reacquired Common Stock at a price of not less than 100% of the fair market value of the shares on the grant date. The options are for a term of five years and are exercisable in three annual installments beginning one year after granting for a maximum of 40% of the optioned shares with the balance becoming exercisable in the two succeeding years.

At December 29, 1958, options for 20,522 shares were outstanding and 39,194 shares were reserved for future grants. During the fiscal year ended January 3, 1960, options for 13,500 shares were granted, 1,508 shares were sold for $15,330 to officers and employees exercising their options, and options for 472 shares lapsed. At January 3, 1960, options for 33,362 shares (19,318 shares at $9.89, 7,803 shares at $26.56, 3,120 shares at $26.91, and 3,121 shares at $28.83) were outstanding and 27,217 shares were reserved for future grants.

At December 29, 1958, options for 10,200 shares were outstanding in connection with an employment agreement. During the fiscal year ended January 3, 1960, 7,284 shares were sold for $96,250 and the remaining shares under option were canceled in connection with termination of the employment agreement.

There have been no charges or credits to income with respect to the options.

NOTE E — CONTINGENT LIABILITIES. At January 3, 1960, the Company was contingently liable as endorser on $1,243,679 of notes receivable that had been sold. These notes had been received on the sale of certain assets of the Company.

NOTE F — LEASES. The aggregate minimum annual rental under leases expiring more than three years from January 3, 1960, approximates $1,850,000. Many of these leases provide for additional rent based upon sales and also provide that the lessee shall pay certain taxes, insurance, and other charges. Ten of these lease locations for which minimum annual rentals approximate $493,000 were unoccupied at January 3, 1960, pending construction of buildings. In addition to the foregoing, the Company had entered into a sale and lease-back agreement for one location for which annual rental will approximate $50,000.

NOTE G — PREFERRED STOCK DIVIDEND. The semi-annual cash dividend of $.20 a share on the Preferred Stock, payable February 1, 1960, was declared by the Board of Directors on January 8, 1960.

NOTE H — FEDERAL INCOME TAXES. No federal income taxes are payable on income of the year because of available net operating loss deductions. The net operating loss carry-over to 1960 based on losses reflected by the Company's returns, with respect to which no reports of examination have been issued by the Internal Revenue Service, was approximately $200,000. Federal income tax returns of a predecessor company for the period of two years ended August 26, 1956, have been examined by the Internal Revenue Service and deficiencies totaling $71,000 have been proposed. The Company is protesting the proposed deficiencies.

NOTE I — EVENTS SUBSEQUENT TO JANUARY 3, 1960. On February 5, 1960, the Company entered into an agreement for the acquisition of all the outstanding capital stock of another company in exchange for stock of the Company. The consummation of the transaction is dependent upon, among other things, approval by stockholders of the seller.

26.4
.07 | 1.85
14
45
42
30

26.4
7.5
33.9
7.2
10.3
51.4

66

Accountants' Report

Board of Directors

Food Giant Markets, Inc.

Los Angeles, California

We have examined the financial statements of Food Giant Markets, Inc. for the fiscal year ended January 3, 1960. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and statements of income and stockholders' equity present fairly the financial position of Food Giant Markets, Inc. at January 3, 1960, and the results of its operations for the fiscal year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Los Angeles, California March 1, 1960 ERNST & ERNST *Certified Public Accountants*

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